

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 02220 01 OF 03 121741Z

43

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-02 H-01 PA-01 PRS-01 USIA-06 /088 W

----- 128534

R 121731Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8212

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY BERN

AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 01 OF 03 LONDON 02220

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: INTERNATIONAL BANK LENDING IN 1975; VIEWS OF
U.S. BRANCHES IN LONDON

REF: LONDON 2063; STATE 22709

SUMMARY: ONE OF LARGEST U.S. BRANCHES SEES GROWTH IN ITS
STERLING LENDING, COULD NOT QUANTIFY GROWTH OF LENDING IN
EUROCURRENCIES BUT NOTES OPEC DEPOSITS CONTINUE TO FLOW
IN HEAVILY IN DOLLARS. COUNTRY LIMITS SET BY HEAD OFFICE
SOMETIMES NOT ALWAYS IN AGREEMENT WITH THE BRANCH. ANOTH-
ER FINANCIAL OFFICIAL FAMILIAR WITH OPERATIONS OF BOTH
LARGE AND SMALL U.S. BRANCHES OFFERED SOME GENERAL COM-
MENTS. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 02220 01 OF 03 121741Z

1. THIS MESSAGE IN REPLY TO REQUEST FOR VIEWS OF LARGE

U.S. BRANCH IN LONDON. ONE OF THE LARGEST U.S. BRANCHES HERE CONSIDERS THAT ITS STERLING LENDING TO COMPANIES IN THE U.K. MAY INCREASE BY 10 PERCENT; IT WILL NOT BE SEEKING TO INCREASE ITS EUROCURRENCY LENDING BUT THIS WILL HAPPEN AS A MATTER OF COURSE. NO PRECISE FIGURES COULD BE GIVEN. THIS BRANCH RECEIVES BETWEEN \$300 AND \$500 MILLION FROM AN OPEC PRODUCER ON THE 15TH OF EACH MONTH. IT ADDED ANOTHER OF LARGEST U.S. BRANCHES IS IN SIMILAR POSITION, CONSTANTLY PLACING FUNDS RECEIVED FROM OPEC MEMBERS. THIS MUCH SAID, LARGE BRANCHES ARE HAVING MINIMUM DEALINGS WITH CONSORTIA BANKS; GIVEN THEIR MIXED PARENTAGE U.S. BRANCHES ARE CONCERNED ABOUT LENDER OF LAST RESORT CAPABILITY AND DIVIDED ALLEGIANCES.

2. ONE OF THE UNCERTAINTIES THAT THIS BRANCH CITES IS POSSIBILITY OF CENTRAL BANK CONTROLS THAT COULD FRAGMENT THE EUROCURRENCY MARKET, POSSIBLY PROHIBIT LENDING BETWEEN COUNTRIES. LOOKING AHEAD, MORE FAILURES AND RESCUE OPERATIONS ARE FORSEEN BOTH FOR BANKS AND INDUSTRIAL COMPANIES. ONLY QUESTION IS WHEN AND WHERE. IT DID NOT CONSIDER ITS OWN CAPITAL RATIO LEVEL A PROBLEM PROVIDED IT HAD CASH FLOW TO MEET BAD DEBTS. SHORT-TERM DEPOSITS BEING TRANSFORMED INTO LONGER TERM LOANS WERE NOT SEEN AS A DIFFICULTY BUT RATHER A NORMAL PART OF BANK BUSINESS. OPEC PRODUCERS ARE PLACING THEIR FUNDS SOMEWHAT LONGER TERM. IN ADDITION, AT LEAST ONE MAJOR MIDDLE EASTERN COUNTRY IS CONSIDERING LENDING DIRECTLY TO THE BANK'S BORROWERS AS A PARTICIPANT IN THE BANK'S OWN LENDING OPERATIONS.

3. THE BANK HAS LENDING LIMITS SET BY HOME OFFICE WHICH, IN FRANKNESS, THE LONDON OFFICERS CONSIDERED PERHAPS TOO STRICT FOR SOME COUNTRIES. THE BANK HAS A FORMALIZED INSTRUCTION BOOKLET FOR LOAN OFFICERS WHICH GIVES GUIDANCE ON EXPOSURE LIMITS AND EVALUATION. SOME OF THE SMALLER EUROPEAN COUNTRIES INCLUDING DENMARK ARE VIEWED CAUTIOUSLY A BORROWER OFFERING HIGHER MARGINS TO INCREASE ITS EXPOSURE LIMITS MIGHT FRIGHTEN THE BANK RATHER THAN INCREASE ITS WILLINGNESS TO LEND. OTHERS, PARTICULARLY NORWAY, ARE VIEWED VERY FAVORABLY. IN TERMS OF SECTORS, THE BANK IS MARKING TIME ON LENDING TO THE NORTH SEA, IS NOT MAKING LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 02220 01 OF 03 121741Z

ANY LOANS FOR SHIPPING, AND AS NOTED IS LENDING FROM ITS STERLING BASE TO U.K. BORROWERS, INCLUDING U.K. DOMESTIC COMPANIES THAT ARE NOT CLIENTS OF THE BANK IN THE U.S.

4. INTERNATIONALLY, OPEC, IMF AND OECD SUPPORT COULD MAKE A DIFFERENCE IN SPECIFIC CASES IN INCREASING EXPOSURE LIMITS, BUT IT WOULD DEPEND ON CIRCUMSTANCES.

5. IN ADDITION, FINANCIAL OFFICIALS WITH EXPERIENCE IN WIDE RANGE OF U.S. BANK BRANCH ACTIVITIES OFFERED FOLLOWING COMMENTS WHICH MAY BE OF BOTH GENERAL AND TECHNICAL INTEREST. FROM A U.S. BRANCH POINT OF VIEW, INTERNATIONAL LENDING IS THE MAJOR TYPE OF LENDING CONDUCTED BY A FOREIGN BRANCH. BUT GIVEN A FOREIGN BRANCH NETWORK, INTERNAL GUIDELINES FOR THE BANK AS A WHOLE, INCLUDING ALLOCATIONS TO EACH OF ITS FOREIGN BRANCHES, ARE ALMOST ALWAYS ESTABLISHED BY THE BANK'S HEADQUARTERS OFFICE IN THE U. S.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 02220 02 OF 03 121748Z

43

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-02 H-01 PA-01 PRS-01 USIA-06 /088 W

----- 128704

R 121731Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8213

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY BERN

AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 02 OF 03 LONDON 02220

THESE GUIDELINES ARE USUALLY STATED IN DOLLAR FIGURES, AND WOULD INCLUDE LIMITS ON COUNTRY EXPOSURES AND FOREIGN CURRENCY EXPOSURES. THE PRIMARY CONSIDERATION IS A SIMPLE FORM OF RISK DIVERSIFICATION, OR SIMPLY SPREADING AVAILABLE CREDIT AMONG A LARGE NUMBER OF COUNTRIES AND CUSTOM-

ERS AS OPPOSED TO JUST A FEW. MOST OFTEN THERE ARE NO HARD ARITHMETIC GUIDELINES FOR THESE INTERNAL ALLOCATIONS, AND THEY SEEM TO BE GENERALLY FLEXIBLE. THE BANKS, NOT REGULATORY AUTHORITIES, ALLOCATE THEIR OWN CREDIT. A FOREIGN BRANCH, WORKING WITHIN THE ALLOCATIONS RECEIVED FROM ITS HEADQUARTERS OFFICE, WILL MAKE ITS OWN DECISIONS, UP TO THE LEVEL OF LENDING AUTHORITY GRANTED BY THE HEADQUARTERS OFFICE TO THE BRANCH MANAGER, MOST LIKELY ACCORDING TO ITS OWN APPRAISAL OF THE FOLLOWING FACTORS:

A. ABILITY OF A POTENTIAL CUSTOMER TO PAY. THIS IS STATED FIRST BECAUSE IT IS THE BASIS FOR AN IM-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 02220 02 OF 03 121748Z

PORTANT DECISION RULE. IF A CUSTOMER IS NOT ACCEPTABLE IN THE BANK'S VIEW, HE MIGHT NOT GET A LOAN UNDER ANY CIRCUMSTANCES.

B. AVAILABILITY OF FUNDING.

C. PROFITABILITY, OR SPREAD BETWEEN LOAN INTEREST AND FUNDING INTEREST.

D. OTHER CONSIDERATIONS MIGHT INCLUDE STATUTORY RISK DIVERSIFICATION REQUIREMENTS. A U.S. NATIONAL BANK IS, FOR EXAMPLE, LIMITED BY U.S. BANKING LAW TO LENDING NO MORE THAN TEN PERCENT OF THE BANK'S CAPITAL FUNDS TO ANY ONE CUSTOMER. THIS RESTRAINT IS USUALLY ONLY ENCOUNTERED IN THE CASE OF VERY LARGE CUSTOMERS. ANY ONE FOREIGN GOVERNMENT WOULD BE ANY ONE CUSTOMER IN THIS CONTEXT.

6. THE LEVEL OF LENDING AUTHORITY GIVEN BY A HEADQUARTERS OFFICE TO A BRANCH MANAGER VARIES GREATLY WITH BANKS. ALL BANKS HAVE A MAXIMUM AMOUNT OVER WHICH A BRANCH MANAGER MUST OBTAIN HEADQUARTERS APPROVAL TO GRANT A LOAN TO ANY CUSTOMER. LENDING VOLUME AND THE TREND OF TOTAL BANK ASSETS IN 1975 IS NOT PREDICTABLE. JUDGING FUTURE TRENDS IN LENDING MARKETS IS LIKE ATTEMPTING AN ECONOMIC ANALYSIS OF ANY MARKET, AND IT IS DIFFICULT TO MAKE CORRECT ASSUMPTIONS ABOUT THE FUTURE DEVELOPMENT OF ALL THE FACTORS. THE MAIN FACTORS ARE PROBABLY THE SUPPLY OF AND DEMAND FOR LENDABLE FUNDS, THE PRICE OF MONEY OR INTEREST RATES, THE ECONOMIC CONDITIONS IN THE BUSINESS COMMUNITY, AND THE BORROWING OF NATIONAL GOVERNMENTS BECAUSE THEY CAN INFLUENCE INTEREST RATES. SOME INSIGHT IN OUTLOOK FOR FOREIGN LENDING CAN BE GAINED FROM ECONOMIC CONDITIONS FOR BUSINESS IN THE WESTERN COUNTRIES, WHICH IS PRESENTLY ONE OF SLOWING ACTIVITY.

7. MOST EUROPEAN GOVERNMENT CONTROLS ON LENDING ARE RELATED TO EXCHANGE REGULATIONS AND GENERALLY RESTRAIN ONLY LENDING IN A HOST COUNTRY'S CURRENCY. U.K. AND SOME OTHER EUROPEAN REGULATORY AUTHORITIES ATTEMPT TO PREVENT CAPITAL

OUTFLOWS IN THEIR OWN CURRENCIES, OR A FLOW OF MONEY OVERSEAS THAT HAS NEGATIVE BALANCE OF PAYMENTS IMPACT. THIS IS AN APPROACH OF LONG STANDING, AND NOT A NEW DEVELOPMENT. IT GENERALLY DOESN'T RESTRAIN A BRANCH FROM UNDERTAKING LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 02220 02 OF 03 121748Z

LENDING IF IT CAN OBTAIN OFFSHORE FUNDS AND LEND THEM OFFSHORE WITHOUT, FOR INSTANCE, VIOLATING A NATIONAL GOVERNMENT'S PROGRAM OF FOREIGN CREDIT RESTRAINT. FOR EXAMPLE, A U.K. CEILING ON BANK CREDIT APPLIES ONLY TO A FOREIGN BRANCH'S STERLING LENDING; BRANCHES IN THE U.K. CAN LEND WITH RELATIVE EASE IN "EURO" CURRENCIES. THE SAME IS GENERALLY TRUE OF A HOST COUNTRY'S LIQUIDITY AND RESERVE REQUIREMENTS; THESE GENERALLY APPLY TO A HOST COUNTRY'S OWN LOCAL CURRENCY. CAPITAL RATIOS ARE NOT APPLICABLE TO A BRANCH BANK, ONLY TO A BANK AS A WHOLE. MOST LENDING, BY AGREEMENT WITH THE BORROWERS, IS DONE ON VARIABLE INTEREST RATES, SO THAT INTEREST DIFFERENTIALS CAN BE GENERALLY MAINTAINED AND GEARED TO THE COST OF FUNDING. THIS APPLIES ESPECIALLY TO TERM LOANS WHERE THE PERIOD OF THE LOAN IS LONGER THAN OBTAINABLE FUNDING.

8. MOST U.S. BANK BRANCHES TRY TO KEEP MATURITIES AS RELATIVELY EVENLY MATCHED AS POSSIBLE, INCLUDING OIL MONEY DEPOSIT LIABILITIES. GIVEN THE MAGNITUDES OF FUNDS PLACED WITH THE LARGEST BRANCHES IN LONDON, THIS IS NOT ALWAYS POSSIBLE. INTERBANK PLACEMENTS MAY HAVE BECOME LESS PROFITABLE (SMALLER SPREADS) IN RECENT MONTHS, AND COMMERCIAL LENDING HAS PROBABLY INCREASED IN PROPORTION TO TOTAL ASSETS AS INTERBANK PLACEMENTS HAVE DECLINED SOMEWHAT. INTERBANK TRADING IS AN IMPORTANT INTERMEDIARY VEHICLE FOR BRINGING FOREIGN CURRENCY DEPOSITS TO A USER, AND BANKS WILL FIND IT NECESSARY TO TRADE TO A CERTAIN EXTENT TO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 02220 03 OF 03 121746Z

43

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-02 H-01 PA-01 PRS-01 USIA-06 /088 W

----- 128649

R 121731Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8214

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY BERN

AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 03 OF 03 LONDON 02220

MAINTAIN THEIR STANDING IN THE MARKET IN ORDER TO OBTAIN FOREIGN CURRENCIES FOR THEIR OWN, AND THEIR CUSTOMER'S NEEDS.

9. IN DETERMINING COUNTRY EXPOSURE LIMITS FACTORS THAT CARRY GREATEST WEIGHT ARE PROBABLY A COUNTRY'S BALANCE OF TRADE, AND BALANCE OF PAYMENTS WHICH EARN THE FOREIGN EXCHANGE FOR PAYMENT OF FOREIGN CURRENCY BORROWINGS. THESE APPEAR TO BE THE MOST EFFECTIVE MEASURE OF A COUNTRY'S ABILITY TO PAY ITS FOREIGN DEBTS. OTHER JUDGMENTS ARE MORE SUBJECTIVE AND INTUITIVE, AND WOULD INCLUDE CONSIDERATION OF ALL THE FACTORS MENTIONED IN THE PARAGRAPH 8A OF STATE 22709.

10. PROFITABILITY IS ALWAYS A GENERAL FACTOR AND WILLINGNESS TO PAY ABOVE MARKET RATES CAN HELP OBTAIN ADDITIONAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 02220 03 OF 03 121746Z

FUNDS, AND RAISE EXPOSURE LIMITS' AT LEAST FROM SOME U.S. BRANCHES. THERE ARE FEW, IF ANY, HARD EMPIRICAL RULES WHICH REPRESENT A CONSENSUS OF BANKERS IN SUCH CASES. IN GENERAL, BANKERS WILL FAVOR SHORT-TERM LENDING IF IT CAN BE ARRANGED, BUT THE PURPOSE OF MANY LOAN REQUESTS ARE LONGER TERM IN NATURE. ONE SPECIFIC EXAMPLE WAS CITED; IN THE CASE OF ARGENTINA, ONE YEAR CREDIT IS VIEWED AS REASONABLE, CREDIT LONGER THAN A YEAR IS NOT. ANY FORM OF ADDITIONAL PROTECTION OR GUARANTEE FOR LOANS WILL FIND

SOME FAVOR AMONG BANKERS, ESPECIALLY GUARANTEES BY FINAN-
CIALLY ABLE NATIONAL GOVERNMENTS OR INTERNATIONAL INSTI-
TUTIONS. THIS MUCH SAID, THE ROLLING OVER OF AN OLD LOAN
IS ESSENTIALLY THE SAME AS THE GRANTING OF A NEW ONE, THE
CREDIT CONSIDERATIONS ARE THE SAME. THE COUNTRIES MOST
LIKELY TO FACE DIFFICULTIES IN BORROWING FROM BANKS,
REGARDLESS OF WHETHER THE BORROWING IS NEW OR A ROLL OVER,
ARE THOSE WITH CONTINUING POOR TRENDS IN BALANCE OF PAY-
MENTS REFLECTING POTENTIAL PROBLEMS IN ABILITY TO PAY
FOREIGN CURRENCY DEBTS, AND WHICH DO NOT HAVE ENCOURAGING
PROSPECTS FOR IMPROVEMENT AND WHICH DO NOT APPEAR TO HOLD
SUITABLE FOREIGN CURRENCY RESERVES.

SPIERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, BANKS, CAPITAL FLOWS, FINANCIAL TRENDS, BANK LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON02220
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750051-0245
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750251/aaaabtcv.tel
Line Count: 345
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 LONDON 2063, 75 STATE 22709
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 16 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 MAY 2003 by ifshinsr>; APPROVED <19 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INTERNATIONAL BANK LENDING IN 1975; VIEWS OF U.S. BRANCHES IN LONDON
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006